

Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

OCT 15 1998

In the Matter of)
)
Applications for Consent)
To the Transfer of Control of Licenses)
And Section 214 Authorizations from)
Ameritech Corporation, Transferor, to)
SBC Communications Inc., Transferee)

CC Docket No. 98-141

**Comments of the
Communications Workers of America**

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The Communications Workers of America ("CWA") represents 630,000 workers who are also consumers of telecommunications services. The majority of our members are employed in the telecommunications industry, including 78,000 employees of SBC and 30,000 employees of Ameritech. CWA is the leading union in the information age whose members are responsible for building, maintaining, and servicing customers on the information highway. CWA seeks to provide leadership on how the information technology industries will emerge in the years ahead, and is committed to ensuring that the profit motive is balanced with the public interest as this industry develops.

CWA urges rapid approval by the Federal Communications Commission (the "Commission") of the merger between SBC Communications Inc. ("SBC") and Ameritech Corporation ("Ameritech"). The merger will benefit both consumers and workers. Consumers will enjoy the increased competition and choice that will result from the merged company's entry into numerous new markets where it will compete for both residential and business customers. Furthermore, the merger will facilitate the deployment of advanced telecommunications technologies to both residential and business customers. Finally, workers will benefit from the over 8,000 new, high-quality jobs that the merged company will create in entering new markets. Therefore, the Commission should recognize these public interest benefits and act now to approve the merger.

I. The SBC/Ameritech Merger Will Benefit Consumers by Bringing Them Increased Competition And Quality Service.

The Commission has made clear that the statutory public interest merger review standard of sections 214(a) and 310(d) of the Communications Act is a flexible one that encompasses the "broad aims of the Communications Act." These broad aims include implementation of Congress' "pro-competitive" national policy framework designed to "open all telecommunications markets to competition," "preserving and advancing universal service," "accelerat(ing) rapidly private sector deployment of advanced telecommunications and information technologies and services", and the employment impact of the merger.¹ The burden of proof is upon the Applicants to demonstrate that the proposed merger is in the public interest.²

The Commission should approve the SBC/Ameritech merger because the Applicants have demonstrated that the proposed merger will enhance competition for, and thereby benefit, all classes of customers. SBC and Ameritech plan to create real, facilities-based competition for both residential and business customers in the top 30 markets that they do not already serve. In addition to bringing substantial new facilities-based competition to these 30 markets outside SBC's and Ameritech's regions, the National-Local Strategy will also spur new competition

¹ In the Applications of NYNEX Corp. Transferor, and Bell Atlantic Corp., Transferee, for Consent to transfer Control of NYNEX Corporation and Its Subsidiaries, *Memorandum Opinion and Order*, File No. NSD-L-96-10 (Aug. 14, 1997), 2 ("*Bell Atlantic/NYNEX Order*"); In the Matter of Application of WorldCom, Inc. and MCI Communications Corporation for Transfer of Control of MCI Communications Corporation to WorldCom, Inc., *Memorandum Opinion and Order*, CC Docket No. 97-211 (Sept. 14, 1998), 8-9, 213. ("*MCI/WorldCom Order*").

² *Bell Atlantic/NYNEX Order*, 32; *MCI/WorldCom Order*, 10.

within those regions as the carriers whose markets SBC will be entering respond by entering its markets. In this way, consumers - residential and business, out-of-region and in-region - will realize the promise of the Telecommunications Act of 1996 (the "1996 Act").

SBC and Ameritech acknowledge that their National-Local Strategy is driven by the imperative to serve their largest customers nationwide.³ Their logic is strong, and CWA urges the Commission to accept that SBC and Ameritech need to have a bigger footprint to compete for the business of large customers.⁴ If SBC and Ameritech cannot compete for such business, they will face continued erosion in their largest accounts, which generate a disproportionate share of their revenues.⁵ Not only do SBC and Ameritech need to merge in order to continue to thrive and to compete with other global telecommunications companies, but also in order to have sufficient capital for continuous investment in the public switched network to ensure preservation and advancement of affordable, quality service to all Americans.

Once SBC and Ameritech have entered the top 30 new markets to serve their largest customers, they intend to make additional investments to serve residential and small business customers in

³ Applicants' Description of the Transaction, Public Interest Showing and Related Demonstrations (July 24, 1998), 14-15 ("*Public Interest Statement*"); Aff. of James S. Kahan, para. 47-54 ("Kahan Aff.") in *Public Interest Statement*.

⁴ Kahan Aff. para. 47-54; Aff. of Dennis W. Carlton, para. 12, 14-19, 25-30 ("Carlton Aff.") in *Public Interest Statement*; Aff. of Richard Schmalensee & Richard Taylor para. 14 in *Public Interest Statement*.

⁵ Kahan Aff., para. 13 (stating that the largest one percent of Southwestern Bell Telephone Company's business customers generate 18 percent of its business revenues); Aff. of Robert Jason Weller, para. 21 (stating that the largest one percent of Ameritech's business customers generate 11 percent of Ameritech's revenues) in *Public Interest Statement*.

these 30 out-of-region new markets . "The new SBC is equally committed to serve [small business and residential] customers and will begin rolling out competitive small business and residential service simultaneously with its efforts to serve large and mid-sized business customers."⁶ Moreover, this service will largely be facilities-based since the merged company will deploy 80 of its own switches in these 30 out-of-region markets for the express purpose of serving small business and residential customers.⁷ This point bears repeating: *The SBC/Ameritech merger will bring facilities-based competition to small business and residential customers in 30 major markets.* No other national provider has yet announced a comparable strategy to serve residential customers nationwide.⁸

SBC and Ameritech have provided the Commission with a lengthy, detailed, and credible description of their business plan to implement this National-Local Strategy. In addition to the 2,900 new fiber miles and 60 switches they plan to deploy to serve large and mid-size businesses, the merged SBC/Ameritech plans to deploy 80 additional switches in 30 identified out-of-region markets to serve residential and small business customers, beginning one year after the merger.⁹ The National-Local Strategy calls for the investment of more than \$2 billion in capital expenditures and \$23.5 billion in operating expenditures over the next 10 years.¹⁰ The merged

⁶ *Public Interest Statement*, 15.

⁷ *Id.*, 16.

⁸ *Id.*, 21-22.

⁹ *Public Interest Statement*, 16.

¹⁰ *Id.*, 17.

SBC/Ameritech plans to invest \$500 per line on customer acquisition, product development and marketing expenses related to residential and small business customers— a total of \$1.4 billion.¹¹ The merged SBC/Ameritech anticipates its out-of-region market share penetration to reach 5-10 percent of the addressable business and residential market, reaching 30 million households and 10 million small businesses by the end of the first decade after the merger.¹² The merged SBC/Ameritech anticipates earnings from these investments will turn positive in 2003, with revenue reaching \$7 billion by 2008.¹³

In-region residential customers also will benefit from the SBC/Ameritech merger. The incumbent local carriers in the markets that SBC and Ameritech enter can be expected to respond by entering the markets of SBC and Ameritech. And the long distance carriers and the competitive local exchange carriers can be expected to follow suit. As one economist has explained:

Successful implementation of this strategy will benefit consumers within SBC's and Ameritech's regions as well. If SBC is successful, others will likely mimic the strategy within SBC's and Ameritech's region. Similarly, increased competition will spur innovation and higher levels of customer service, as well as reductions in price for customers in all areas.¹⁴

¹¹ Kahan Aff., para. 63.

¹² *Id.*, 62; *Public Interest Statement*, 17.

¹³ *Id.*, 43.

¹⁴ Carlton Aff., para. 10. See also Aff. of Richard J. Gilbert and Robert G. Harris, para. 28 in *Public Interest Statement* ("Entry into out-of-region markets, a key element of the merger's business plan, likely will cause other telecommunications firms to enter the merged firm's territory with their own integrated services. This competition will bring lower prices and more choices to consumers.").

Moreover, by merging, SBC and Ameritech will be able to hold on to their high-volume, high-profit customers, which will provide them with the revenues that they need to invest in upgrading the public switched network for the benefit of all of their in-region customers.

The SBC/Ameritech merger, then, helps all consumers and deserves rapid Commission approval. By providing the Commission with concrete evidence that they will invest in facilities-based competition for consumers, not just for business customers, SBC and Ameritech go well beyond the expressions of intent provided to the Commission by MCI and WorldCom.¹⁵ And the SBC/Ameritech merger will trigger in-region competition, which will provide major consumer benefits within their existing service areas. Rejecting the merger, by contrast, could lead to a loss of major accounts for SBC and Ameritech, which would deny them the revenues needed to upgrade their networks and would seriously harm residential in-region customers.

II. The SBC/Ameritech Merger Will Create More than 8,000 New Jobs.

Not only do consumers win from the SBC/Ameritech merger, but so do workers.¹⁶ The merged company will need more than 8,000 workers to execute the National-Local Strategy,¹⁷ which

¹⁵ Thus, SBC and Ameritech have gone far beyond the standard set in the *MCI/WorldCom Order* in meeting the burden of proof public interest standard. *MCI/WorldCom Order*, 193.

¹⁶ In the *MCI/WorldCom Order*, the Commission made clear that the impact of a merger upon employment falls within its public interest test. *MCI/WorldCom Order*, 213.

¹⁷ *Public Interest Statement*, 17; Kahan Aff., para. 59.

involves deploying 60 new switches to serve large and mid-size businesses plus 2,900 miles of route-fiber, along with an additional 80 switches for small-business and residential customers. The emphasis on job-growth and business expansion in the SBC/Ameritech merger contrasts vividly with so many other mergers, which focus on cutting costs and firing workers. In contrast to previous merger reviews, SBC/Ameritech have provided to the Commission evidence of revenue synergies totaling \$778 million by 2003.¹⁸

There is ample evidence to support SBC and Ameritech's contention that the merger will create jobs. Since the SBC-PacTel merger, SBC has created 3,662 occupational jobs in California and Nevada, an 11.7 percent increase since the merger.¹⁹ Furthermore, PasTel employees have benefitted from the merger in improved pay and benefits. PasTel employees received substantial pay increases in the most recently negotiated contract (totaling 11.1 percent over the next three years), coupled with benefit improvements including increases in the employee savings plan from 67 percent to 80 percent and a \$16 million fund dedicated to employee education and training. Pacific Bell and Southwestern Bell were the first Bell Operating Companies in the nation in 1998 to reach early agreement with our Union.

¹⁸ *Public Interest Statement*, 38. In contrast, in the most recent merger review, MCI and WorldCom provided to the Commission no projections of revenue synergies (e.g. growth) that would result from the merger.

¹⁹ *CWA Membership Reports* for (end of month) April, 1997 and September, 1998. Applicants note that Pacific Bell and its affiliates have created 2,869 net jobs as of May 8, 1998 in California since the merger closed, a 5.8% increase in jobs. Kahan Aff., para. 94. CWA figures differ slightly from the Applicants' figures because we count occupational employment only in both California and Nevada through September, 1998.

While approving the growth-oriented SBC/Ameritech merger would be good for workers, rejecting the SBC/Ameritech merger would be harmful to workers. SBC and Ameritech are not going to be able to retain their largest customers unless they have a national and global reach and can offer those customers a full range of services. As one SBC executive has said, "We cannot remain idle while our competitors capture the huge traffic volumes generated by a relatively small number of larger customers."²⁰ The merger and the National-Local Strategy are how SBC and Ameritech will retain these largest customers, the loss of whom would have a serious negative effect on employment at SBC and Ameritech. At SWBT alone, loss of the largest one percent of business customers, who generate 18 percent of revenues, could cost thousands of existing jobs.

The choice, then, for the Commission is clear: approve the merger and create thousands of new jobs in a pro-growth merger that will create a strong American competitor in the telecommunications marketplace, or reject the merger and cost thousands of workers their existing jobs.

²⁰ Kahan Aff., para. 13.

III. The SBC/Ameritech Merger Will Create Good Jobs.

The jobs created and preserved by the SBC/Ameritech merger are not just any jobs. They are (and will be) good jobs - jobs that pay workers enough to support a family; jobs with an employer that values and invests in its workforce.

A. SBC Values a Stable, High-Quality Workforce

Unlike some carriers, SBC recognizes that having a stable, high-quality workforce is crucial to its success. Only with such a workforce can the company deliver the high-quality service that its customers expect and deserve. Moreover, SBC's commitment to having such a workforce is not just theoretical or rhetorical. As the largest union representing SBC employees, CWA can attest that the company regularly acts on this belief. CWA has a progressive and positive relationship with SBC. In recognition of this relationship, for example, SBC CEO Ed Whitacre was invited to address the CWA national convention in 1997, one of only two telecommunications executives in CWA history, and the first one in over thirty years, that has been invited to address a CWA national convention.

SBC understands that the Union is the company's key partner in ensuring the stability and quality of its workforce. Therefore, the company respects the rights of its workers to organize and to bargain collectively. For example, SBC was the first major telecommunications company to agree to recognize a union voluntarily whenever the majority of employees in a bargaining unit

sign union membership cards ("card check recognition"). As another example, this spring SBC approached the negotiation of new collective bargaining agreements in a cooperative manner and SBC and CWA reached early agreements months before the expiration of the old contracts.

Of course, the best measure of the value a company places on its workers is the amount that it pays them. Here too, SBC proves how much they desire to have a stable, high-quality workforce. The new collective bargaining agreements treat SBC's employees fairly - providing compensation that reflects their contribution to the company. The company made it clear [entering this year's bargaining] that they were interested in reaching fair settlements, in line with the financial success SBC has enjoyed and the gains in productivity that our members have brought to the company.

Because of SBC's progressive attitudes towards its employees and its cooperative relationship with CWA, the company delivers high-quality service to its customers. The 1997 J.D. Power & Associates Wireline Customer Satisfaction Survey ranked Pacific Bell and Southwestern Bell second and third, respectively, among the 13 largest U.S. telephone companies.²¹ The merger with Ameritech and the expansion into 30 new markets will enable millions of new customers to realize the benefits of the SBC/CWA workforce.

²¹ See SBC Communications Inc., *1997 Annual Report* 16, available at <http://www.sbc.com/Investor/Annual/Report/97/sbc_ar97.pdf>.

B. SBC Is Merging with Ameritech Because It Requires the Combined Capabilities of SBC's and Ameritech's Workers

The merger itself reflects the importance that SBC places on its workforce. SBC's National-Local Strategy to bring true competition to 30 new markets depends on the company's having access to a large pool of highly skilled workers. According to SBC's Senior Vice President for Corporate Development:

The necessity for extraordinary management and employee depth is particularly compelling when you consider the training and hiring demands that will be placed on a company to generate over 8,000 broadly dispersed, highly skilled jobs on such a rapid basis.²²

SBC alone lacks sufficient skilled personnel to enter these 30 markets.²³ Thus, the merger with Ameritech is essential to create a company with the employee base necessary to implement the National-Local Strategy.²⁴

²² Kahan Aff., para. 77.

²³ *Id.* ("On a stand-alone basis, SBC simply does not have a strong enough bench to undertake anything as ambitious as the National-Local Strategy."); Carlton Aff. para.. 32-34. Although Carlton primarily talks about managerial employees, he defines the concept "to include those [employees] involved in engineering, sales and marketing, administration, and customer service." *Id.* para. 33. A large group of skilled technicians will be eligible to retire within the next 5-10 years, and the merger of SBC and Ameritech will enhance the ability of each company to invest in training a new generation of technicians as well as customer service personnel in the skills necessary to build, maintain, and service both voice and next-generation advanced data networks.

²⁴ Kahan Aff., para. 78 ("The merger creates a far larger pool of employees on which to draw in implementing the strategy."); Carlton Aff., para. 31, 35 ("By combining the managerial and engineering resources of SBC and Ameritech, the merger substantially increases the pool of human resources that can be drawn upon . . . [and] significantly limits the scope of the [skilled employee] effort required for the 30-region plan relative to the combined firms' current activities.").

With SBC's focus on and appreciation of its human resources, CWA expects that the SBC/Ameritech merger will continue and expand the company's progressive attitudes towards its combined workforce.

IV. The SBC/Ameritech Merger Will Preserve and Advance Universal Service

As we discussed in Section I, SBC candidly acknowledges that the National-Local Strategy is driven by the imperative to retain its largest business customers.²⁵ As we also noted, absent the merger, SBC and Ameritech will suffer significant revenue loss as its lucrative business customers migrate to competitive carriers that are not subject to regulatory geographic barriers, regulated tariffs, and costly carrier-of-last resort obligations.²⁶ Absent the merger, SBC and Ameritech are likely to respond to such a significant revenue loss with the only business strategies that makes economic sense: pressure to raise consumer rates, reduction in network investment, or both. Either option would undermine realization of the goals of the 1996 Act: to preserve and to advance universal service. Ironically, absent a merger which would allow SBC and Ameritech to compete effectively for large business customers, the likely impact will be a steady deterioration in quality and affordability of service to residential consumers and small business customers.

²⁵ *Public Interest Statement*, 14-15; Kahan Aff., para. 47-54.

²⁶ Kahan Aff. para. 47-54; Carlton Aff., para. 12, 14-19, 25-30; Aff. of Richard Schmalensee & Richard Taylor para. 14.

The SBC/Ameritech National-Local Strategy provides an alternative. The strategy provides SBC and Ameritech the ability to compete on a level playing field with other competitive carriers for large business customers, while at the same time increasing revenues for investment in-region and out-of-region. By enhancing competition and promoting investment in all market segments, the SBC/Ameritech merger promotes the goals of the 1996 Act to preserve and to advance universal service.

V. Conclusion

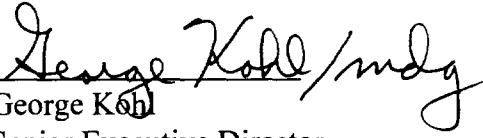
In enacting the 1996 Act, the Congress sought to enhance the growth of the telecommunications industry and foresaw that the Act was "likely to stimulate tremendous economic growth. . . . The potential to stimulate jobs, investment, and export opportunities for the American economy is immense."²⁷ By approving this merger, the Commission will help realize this vision. By approving this merger, the Commission will help ensure that workers receive an equitable share of the benefits of this economic growth because it will create good jobs with a company that truly values its employees. By approving this merger, the Commission will bring facilities-based competition to small businesses and residential consumers and speed the deployment of advanced telecommunications capabilities to all Americans. The Applicants have therefore demonstrated that the merger serves the public interest.

²⁷ S. Rep. No. 104-23, at 16 (1995).

For the foregoing reasons, CWA respectfully urges the Commission promptly to grant SBC's and Ameritech's applications.

Respectfully Submitted,

Communications Workers of America

By 
George Kohl
Senior Executive Director

Dated: October 15, 1998

CERTIFICATE OF SERVICE

This is to certify that I have duly served these comments upon these parties by depositing copies of same in the United States mail, addressed as follows:



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